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SINO-SOVIET BLOC AID PROGRAM

APR 5 1957

A. Introduction

1. Soviet directed Bloc program for expanding economic relations with underdeveloped Free World countries moved into high gear in 1955.
2. This expansion advantageous because Bloc:
 - a. Needs additional raw materials due to shortages of own production and reserves (bauxite, copper, textile fibers, rubber, diamonds).
 - b. Can use additional agricultural products which are available as export surpluses in many underdeveloped countries.
3. Hence Bloc developing need for export markets for expanding production of industrial goods in order to pay for needed imports.

B. Bloc Foreign Economic Programs

Since early 1955, intra-Bloc and Bloc-Free World credits total over \$2.7 billion, of which almost \$1 billion are for military aid and about \$1.7 billion for economic projects. (Annual barter deals; military equipment for goods or cash, etc. not included.)

By comparison, US mutual security aid, in FY 55 and 56, totaled \$5.5 billion, of which \$2.3 billion for military aid and \$3.2 billion for economic purposes.

3. Intra-Bloc loans since early 1955 more than \$1.4 billion

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- a. from USSR, \$1.1 billion
 - 1. to China, military, \$620 million
 - 2. to North Vietnam, economic, \$100 million
 - 3. to East Germany, economic, possibly \$250 million
 - 4. to Bulgaria, agricultural, \$100 million
 - 5. to Poland, economic, \$25 million
 - 6. to Hungary, economic, \$25 million
- b. from China to North Vietnam, economic, \$325 million
- c. from Rumania to North Korea, economic, \$6 million
- 4. Bloc loans to Free World since early 1955 more than \$1.2 billion. (chart)
 - a. to Yugoslavia, economic, \$464 million (includes 100,000-ton aluminum combine)
 - b. to Egypt, military, \$250 million; economic \$1 million (includes ceramic plant)
 - c. to Afghanistan, military, \$25 million; economic \$132 million (includes airports and roads)
 - d. to India, economic, \$124 million (includes 1 million ton steel plant at Bhilai)
 - e. to Indonesia, economic, \$112 million (includes sugar refinery)
 - f. to Syria, military, \$35 million, and
 - g. small loans and grants to Cambodia, Finland, Argentina, Nepal, Iceland, \$75 million.

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5. In addition, technical assistance provided by Bloc to 15 countries. Notable examples:
 - a. Natural resource survey - Burma
 - b. Roadbuilding and airfield construction - Afghanistan
 - c. Economic planning - India
 - d. Military advisors - Egypt
 - e. Nuclear research - Indonesia
6. Bloc trade with underdeveloped countries at ~~1955~~ rate of \$1.6 billion in 1956, 90 percent increase over 1955.
7. Bloc will have participated in trade fairs in 22 underdeveloped countries in 1956, contrasted to 16 in 1955.
8. Bloc long-term aid is proving attractive to underdeveloped countries because their ambitious industrialization programs make continuity in flow of development capital essential.
 - a. India and Indonesia are examples of countries which have accepted long-term aid from the USSR assuring them a steady flow of capital goods.
 - b. Yugoslav statement last week highlights doubts as to usefulness of US aid which is "limited by time" and which "can be revised" at "every moment."

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9. In all underdeveloped countries tremendous pressure for economic betterment. People as well as leaders convinced, rightly or wrongly, this requires rapid industrialization.

Though generally dedicated to political and individual freedom they will not remain loyal to these concepts if price is economic stagnation.

Inclined to conclude that industrialization by free enterprise methods took 150 years in Western Europe and US and that they can't wait that long. Inclined to be suckers for Russian line that Russia made itself great industrial power in one generation starting from scratch and with no assistance from West.

These Asian countries tend to forget Soviet Union has built upon pioneering work in US and Western Europe and also to ignore cost such as stagnating agriculture and denial consumer wants.

C. Comparison of Growth Rates of China and India

1. Rapid industrial progress of Soviet Union and more recently of China has great attraction for underdeveloped countries, many of which border on Bloc.
2. In this connection, underdeveloped countries observe with interest the relative growth rates of India and Communist China.
3. During first five-year plans (1953-57 for China, 1951-55 for India) China's total national production will probably increase twice as fast as India's.
4. During the second five-year plans (1958-63 and 1956-61 respectively) China's planned rates of increase are nearly 75 percent greater than those of India.
5. China's industry is growing almost three times as rapidly as India's during its first five-year plan and in the next five years China's industrial growth rate will be twice that of India.
6. Chinese rates of growth in production of such commodities as coal, steel, electric power, cement, and paper have in recent years outstripped those of India, while India has been ahead in cotton, cotton yarns, and foodgrains. (graphic)
7. In the second five-year plan, India plans a growth rate for steel greater than China.

D. Bloc Foreign Trade Capabilities

1. USSR now world's second industrial power (machine tool production exceeds US's).

2. Of over \$5 billion of obsolescent military equipment stocks of USSR, only \$300 million so far traded to underdeveloped countries.
3. Bloc ability to pay for imports rests on level of exports and gold and foreign exchange reserves.
 - a. Although trade was roughly in balance in past years, 1955 Bloc exports to Free World increased 32 percent over 1954, while imports increased only 16 percent.
 - b. USSR has \$4 billion in gold reserves with annual production of \$175 million (domestic non-monetary consumption only 5 percent annual production).

E. Conclusions

1. Bloc economic programs in underdeveloped countries used to increase influence and gain strategic, political and economic advantage.
2. Bloc programs aimed at weakening existing military and political alignments in the Free World (e.g., Yugoslavia, Egypt).
3. Total Bloc loans and grants to underdeveloped countries represents less than $\frac{1}{2}$ of 1 percent of Bloc gross national product and less than 1 percent of industrial production.
4. Underdeveloped countries lack capital and trained personnel for rapid economic development.
 - a. In past, unable to obtain sufficient capital in Free World due mainly to lack of Western markets

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for exportable surpluses.

- b. Bloc is taking such surpluses (e.g., Egyptian cotton, Burmese rice) in exchange for development capital.
5. The US program for combatting Communist subversion (1290-d) is helping to strengthen and support police and intelligence in various underdeveloped countries.
6. The long-range character of much of the Bloc program is attractive to the underdeveloped countries because continuity in flow of capital is essential in their development plans.

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SUPPLEMENT A

POLAND

1. Soviet loans to Poland since issuance of first credit in 1948 total \$640 million -- 12 percent of Soviet loans within Bloc.
2. Five individual loans, all for economic purposes, have been made.
 - a. Two large loans, in 1948 and 1950, totaled \$550 million for Soviet capital goods for economic development under Polish Six-Year Plan (1950-1955).
 - b. \$65 million extended in two loans of about equal size in 1947-1948 for imports of foodstuffs and raw materials from USSR and Free World.
3. Most recently, \$25 million loaned in September 1956 to assist in financing industrial and consumer imports.

SUPPLEMENT B

HUNGARY

1. Soviet loans to Hungary total \$455 million -- 8 percent of Soviet loans within Bloc.
2. Composition of this total is as follows:
 - a. Military assistance loans, totaling \$210 million, were granted between 1949-1955.
 - b. Largest single economic loan \$180 million, for 1954 purchase of Soviet share in joint stock companies.
 - c. Remaining \$65 million, granted in four loans, one each year from 1953, were provided
 - to reduce chronic indebtedness to West,
 - and
 - for raw materials and consumer goods imports from USSR.
 - d. Most recent of these four loans was \$25 million granted on 4 October 1958. As in the case of previous loans of this type, it will act only as palliative. Poor labor morale and inefficiency caused by restricted availability foodstuffs and low standard of living raises production costs and makes exports non-competitive.